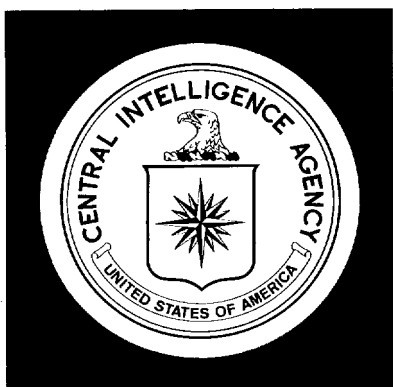


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**VIETNAM:** Heavy fighting continues inside Quang Tri City's citadel, where South Vietnamese Airborne troops are battling well-entrenched North Vietnamese defenders in the northern and western sections of the walled fortress.

At least three companies of airborne troops reportedly now control part of the citadel. These units are being supported by intense South Vietnamese air strikes against the bunkered enemy positions. In other parts of Quang Tri City, airborne forces are moving from house-to-house to ferret out remaining pockets of enemy troops. Other government forces north and south of the city are still being subjected to relatively light shellings and ground attacks.

Enemy units are also maintaining pressure on South Vietnamese forces to the west and south of the government counteroffensive. Two ground attacks were directed against government troops in the vicinity of Fire Support Base (FSB) Nancy, and enemy gunners continue to disrupt South Vietnamese military traffic on Route 1 between Hue and Quang Tri City.

West of Hue, the North Vietnamese launched two ground assaults in the vicinity of FSB Bastogne on 25 July, forcing government troops to break contact in one of the battles. Communists also kept up their heavy shellings in the area; an estimated 4,500 rounds were fired at government positions.

Farther south in Quang Nam Province, a government Ranger unit was repulsed in an attempt to retake an outpost near FSB Ross in Que Son District. North of Ross, however, elements of the South Vietnamese 2nd Division claim to have overrun two enemy positions, inflicting heavy enemy casualties.

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The government counteroffensive in Binh Dinh Province continues to progress northward against light resistance. Most enemy forces appear to have pulled out of the coastal areas in the three northern districts and to have moved inland to mountain redoubts. In Dinh Tuong Province in the delta, Communist forces continue to harass government outposts.

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ISRAEL: Prime Minister Golda Meir, in commenting on the expulsion of the Soviet advisers, has reiterated basic Israeli demands for a settlement with Egypt and warned that frustration might lead the Egyptians to resume fighting.

Mrs. Meir told the Knesset yesterday that President Sadat's recent action was possibly a positive development "on condition that it indeed presages a true turning point in Egypt's policy." She added that Sadat's speech of 24 July brought no message of such a turning point. Citing the differences between the Soviets and the Egyptians, Mrs. Meir said that "we shall not intervene in this debate," but noted that the Soviets still retain a strategic presence in Egypt.

Mrs. Meir again called for direct negotiations, something the Egyptians have consistently rejected. She indicated Israeli willingness to negotiate ultimate borders, but other references in her speech made it clear that the Israelis have not budged from their refusal to agree to complete withdrawal from the occupied territories. The prime minister indicated that Israel could accept an interim agreement, such as the Egyptian proposal of February 1971 for the reopening of the Suez Canal, and stated that Israel would regard such an agreement as temporary.

Mrs. Meir heavily stressed the closeness of US-Israeli relations and especially the significance of US arms supplies to Israel. The US Embassy in Tel Aviv believes that the main purpose of the prime minister's speech was to make clear to President Sadat that Israel has the continued support of the US and that Cairo should not entertain any hopes for US pressure on Israel to be more forthcoming on the border question.

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Mrs. Meir obviously felt compelled to respond to the Egyptian action with a reminder of Israel's continued interest in a peaceful settlement. Nonetheless, the hard issues dividing the two countries remain essentially unchanged.

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PHILIPPINES-USSR: President Marcos reportedly has agreed to establish diplomatic relations with the Soviet Union.

[REDACTED]

[REDACTED] recent actions by President Marcos suggest that he is ready to exchange representatives with Moscow. Last March his wife Imelda visited Moscow and met with Soviet leaders; the agreement in principle to establish relations was reportedly reached at that time.

Manila has been considering formal ties with Moscow for some time, but, until now, Marcos has demurred despite Soviet interest. At first he had hoped to reach some sort of trade or economic agreement with Moscow while avoiding diplomatic ties. The Soviet Union has expressed pro forma interest in trade and has received Filipino trade missions, but Moscow has little interest in the products the Philippines can offer.

Marcos and other Filipinos have been concerned about the effect the presence of a Soviet mission might have on the Philippines' internal Communist threat, and the fact that the relationship apparently will involve only non-resident ambassadors reflects this caution. He also feared that recognition would not sit well with the US, but this latter concern has been partly dissipated by President Nixon's visits to Moscow and Peking. Marcos, somewhat inconsistently, now views relations with the Soviet Union as a relatively harmless way of demonstrating his independence from the US.

[REDACTED]

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BANGLADESH: An important student political leader has come out in open opposition to Prime Minister Mujib.

Last weekend, Abdur Rab, head of the leftist faction of the ruling Awami League's student organization, publicly charged Mujib with failing to meet the country's problems adequately and reportedly declared that "Sheikh Mujib is no longer our father." Rab's statements were followed by clashes in Dacca between his followers and a group of more moderate Awami League students who are supported by Mujib. More than 100 persons were injured, including Rab himself, who was hospitalized in serious condition.

Rab's declarations were the most outspoken criticisms of Mujib yet voiced in public by an important political figure, and the fighting was the first major political violence in the capital since independence. The two groups are planning more meetings and demonstrations, and further clashes may occur.

Despite all this, Mujib remains widely popular, and so far he has been successful in preventing the country's economic difficulties from spilling over into widespread violence. No serious threat to his continuation in power has yet developed. Students, however, have often been in the vanguard of Bengali political developments, and the recent surfacing of increased leftist dissidence among them may be a harbinger of things to come on the political scene.

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JAPAN-CHINA: Tokyo's approval of Export-Import Bank financing for the sale of a synthetic fiber plant to China marks Japan's first official trade credits to Peking since it lifted the ban on such credits late last year. Japanese firms have pressed for Export-Import Bank financing to facilitate exports of whole plants, ships, and other major industrial items to China, and further Export-Import Bank funds probably will be made available. Although China may decide to pay as soon as the synthetic fiber plant is delivered, Tokyo's gesture will help improve its relations with Peking, a major policy goal of the Tanaka administration.

[REDACTED]

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PANAMA: The Panamanian ambassador told US officials in Washington on Monday that a new canal negotiating position is almost complete, and that he will be returning to Panama within a few days to review it. In the past, the ambassador has been pessimistic about the negotiations, but he described the new position as "forthcoming" and one that "the US will like." The new position paper will probably be delivered to the US after the legislative elections on 6 August and will set the stage for resumption of formal negotiations, which have been suspended for the past four months. Details of the new position are not available, but it still seems unlikely that Panama has modified its principal objectives enough to permit a breakthrough in the negotiating stalemate.

[REDACTED]

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CARIBBEAN-GUYANA: Reynolds Metals Company is considering a moderate expansion of its bauxite production capacity in Jamaica and Haiti. If carried out, this will embarrass Guyana's President Burnham because it would come in the wake of the recent reduction in the company's operations in Guyana. Reynolds had attributed the cutback to the depressed international market for aluminum. The additional output, which would not become available until 1974 when the market is expected to be stronger, will be shipped to Reynolds' Texas alumina facility and to a new plant in West Germany. Neither of these plants is equipped to handle Guyanese bauxite. Nevertheless, Burnham's embarrassment may cause him to renew his threat to nationalize Reynolds' holdings in Guyana. [REDACTED]

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BANGLADESH: The state-owned jute industry has recovered rapidly since resuming operations in February. According to the trade association of jute manufacturers, 83 percent of the country's looms were back in operation by the beginning of June, and jute output had reached 70 percent of capacity. Performance is uneven among the mills, however, mainly because inexperienced managers appointed by the government are having difficulty handling labor problems. Jute manufacturing is the country's largest employer and foreign exchange earner. Demand for jute products is strong worldwide, and there is a backlog of orders from Bangladesh's customers. [REDACTED]

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